

**REPORT OF THE AUDIT OF THE  
LYON COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**April 15, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**LYON COUNTY**  
**SHERIFF'S SETTLEMENT - 2003 TAXES**

**April 15, 2004**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Lyon County Sheriff as of April 15, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$3,511,875 for the districts for 2003 taxes, retaining commissions of \$144,098 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,367,106 to the districts for 2003 taxes. Refunds of \$272 are due to the Sheriff from the taxing districts.

**Report Comment:**

- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Sarah Boyd, Lyon County Judge/Executive  
Honorable Kent Murphy, Lyon County Sheriff  
Members of the Lyon County Fiscal Court

Independent Auditor's Report

We have audited the Lyon County Sheriff's Settlement - 2003 Taxes as of April 15, 2004. This tax settlement is the responsibility of the Lyon County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lyon County Sheriff's taxes charged, credited, and paid as of April 15, 2004, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Sarah Boyd, Lyon County Judge/Executive  
Honorable Kent Murphy, Lyon County Sheriff  
Members of the Lyon County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 20, 2004



LYON COUNTY  
KENT MURPHY, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

April 15, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 325,134	\$ 740,098	\$ 1,583,593	\$ 508,739
Tangible Personal Property	18,064	35,878	53,417	39,432
Intangible Personal Property				14,312
Fire Protection	444			
Franchise Corporation	46,650	98,408	152,510	
Additional Billings	20	40	97	31
Bank Franchises	17,908			
Penalties	1,797	4,218	8,558	2,933
Adjusted to Sheriff's Receipt	15	16	2	9
Gross Chargeable to Sheriff	<u>\$ 410,032</u>	<u>\$ 878,658</u>	<u>\$ 1,798,177</u>	<u>\$ 565,456</u>
<u>Credits</u>				
Exonerations	\$ 1,456	\$ 3,228	\$ 7,090	\$ 2,278
Discounts	5,492	12,335	26,090	8,887
Delinquents:				
Real Estate	5,705	13,856	27,763	8,919
Tangible Personal Property	207	462	611	632
Uncollected Franchise	2,331	5,124	7,982	
Total Credits	<u>\$ 15,191</u>	<u>\$ 35,005</u>	<u>\$ 69,536</u>	<u>\$ 20,716</u>
Taxes Collected	\$ 394,841	\$ 843,653	\$ 1,728,641	\$ 544,740
Less: Commissions *	17,068	34,445	69,146	23,439
Taxes Due	\$ 377,773	\$ 809,208	\$ 1,659,495	\$ 521,301
Taxes Paid	377,680	809,238	1,659,042	521,146
Refunds (Current and Prior Year)	93	242	453	155
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ (272)</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* and \*\* See next page

The accompanying notes are an integral part of this financial statement.

LYON COUNTY  
KENT MURPHY, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES  
April 15, 2004  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on		1,421,487
4% on		2,062,676
1% on		17,712

\*\* Special Taxing Districts:

Library District	\$	(2)
Health District		(2)
Extension District		(1)
Fire District #1		<u>(267)</u>

Refunds Due Sheriff	\$	<u><u>(272)</u></u>
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LYON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 15, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

LYON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2004  
(Continued)

Note 3. Property Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 3, 2003 through April 15, 2004.

Note 4. Interest Income

The Lyon County Sheriff earned \$3,440 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of August 20, 2004, the Sheriff owes \$12 in interest to the school district.

Note 5. Sheriff's 10% Add-On Fee

The Lyon County Sheriff collected \$12,698 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lyon County Sheriff collected \$2,070 of advertising fees allowed by KRS 134.440(2). This amount will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION



LYON COUNTY  
KENT MURPHY, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of April 15, 2004

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the tax settlement.
- The Sheriff should periodically compare tax payments to monthly reports. The Sheriff could document this by initialing the monthly report.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*None*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

None.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Sarah Boyd, Lyon County Judge/Executive  
The Honorable Kent Murphy, Lyon County Sheriff  
Members of the Lyon County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance  
And Other Matters Based On An Audit Of The Financial Statement  
Performed In Accordance With Government Auditing Standards

We have audited the Lyon County Sheriff's Settlement - 2003 Taxes as of April 15, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lyon County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.



Report On Internal Control Over Financial Reporting And On Compliance  
And Other Matters Based On An Audit Of The Financial Statement  
Performed In Accordance With Government Auditing Standards

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lyon County Sheriff's Settlement - 2003 Taxes as of April 15, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 20, 2004

